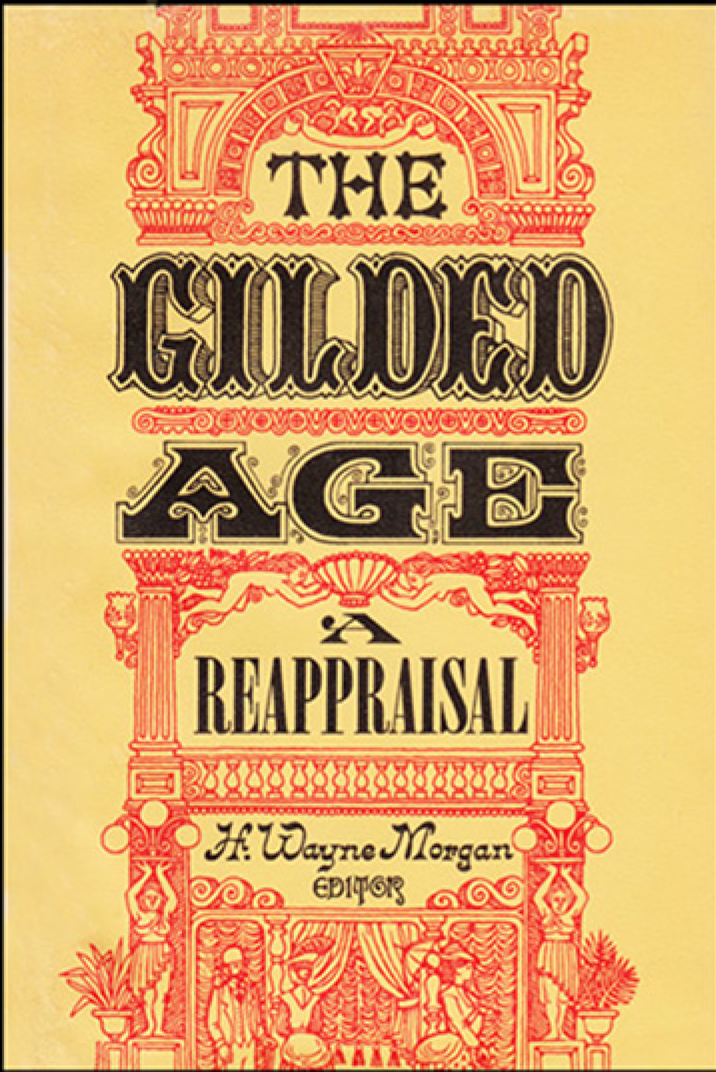

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6

Greenbackers, Goldbugs, and Silverites

Currency Reform and Policy, 1860-1897

PAOLO E. COLETTA

THE currency problems of the Gilded Age, posed originally by the financial exigencies of the Civil War, were directly affected by the government's political and fiscal policies, the end of the frontier and the rise of industry and of the city, swings of the business cycle, new discoveries of silver and gold, and learned and popular conceptions of the part the government and the banks should play in providing and regulating the currency.

Unable to finance the stupendous war costs out of taxes, short-term loans, and hard money, Secretary of the Treasury Salmon P. Chase, in his report for December, 1861, suggested a national banking system which would create a uniform currency, provide a market for government bonds, and prevent the overexpansion and depreciation of the currency. The issue of partial legal tender notes acted as a temporary palliative; a constitutional and practical reform was needed to permit the government, like the individual and the corporation, to use the same money the people used, to borrow from banks as the people did, and above all to use fully its exclusive constitutional control over the monetary system.[1] After both the banks and the government suspended specie payments late in December, 1861, Secretary Chase proposed not a new federal bank but a system of banks with national charters, the principles for which had been evolved by Alexander Hamilton in preparing the charter for the first United States bank.

Backed by the Lincoln administration and applauded by public opinion, the act passed on February 20, 1863, and was approved by Lincoln five days later. At the time there were some 1,700 banks established under the laws of twenty-eight states. Each bank issued

its own currency, and there was "no common regulator . . . no check or control," as Sherman put it.[2] Before the Civil War the Union had used only hard money under the independent treasury system and had had no contacts with banks for nearly twenty years. The new act combined the interests of the government and the people, made them partners in a system of national banks whose liabilities would provide a government-supervised national currency. Note issues would be convertible into United States notes while the war lasted and afterwards into coin; the currency would be uniform; and the system would furnish a market for government bonds. Chase's difficulties in selling bonds, however, are exemplified by his telling the bankers that unless they took certain loans on his terms he would issue paper money "until it takes $1000 to buy a breakfast."[3]

In 1862, Hugh McCulloch, president of the very successful Bank of the State of Indiana, had gone to Washington to protest the passage of the national banking act. He was convinced by Secretary Chase that the law was necessary, and shortly thereafter he was asked to take charge of organizing and controlling the system as the first comptroller of the currency. McCulloch reluctantly accepted,[4] and his suggestions were incorporated in the drastic revision of the law in the National Banking Act of June 3, 1864. The most pertinent changes forbade state banks to issue national currency, permitted the secretary of the treasury to use the national banks as depositories even though the subtreasuries established in 1846 were retained, and modified the reserve requirements established in the original act by calling for reserves proportional to liabilities and by permitting part of the reserve to be in the form of bank credit.[5] Lincoln's approval of this act, on March 3, 1865, was a bench mark in American financial history. It nationalized the banking and currency system. The 2 per cent tax on state bank issues, raised to a prohibitive 10 per cent by Congress on March 3, 1865, asserted federal sovereignty and deprived the state banks of the note-issuing power they had used for eighty years. It provided a uniform paper currency and enabled the government and the public to use the same money. And the government sold millions in bonds, as required reserves, to the large number of banks that converted to or originated under national charter, most of them after the war. The act

posed the heart of the American farmers' dilemma throughout the Gilded Age.

According to the terms of the national banking acts, a banking association could emit circulating notes to the value of 90 per cent of the bonds deposited with the government. But by requiring a minimum capitalization of $50,000 for banks in places under 6,000 population, the acts practically precluded the establishment of banks in rural areas. The older banks, which first received the privilege of note emission, were located mostly in eastern cities.[6] While the national bank currency was a great improvement over the morass of state bank note issues—often spurious ones—of earlier years, it hurt the farmer by proving inflexible: no provision had been made for adjusting circulation according to changes in conditions of population and trade. National bank note issues were limited to $300,000,000 and were tied to holdings of federal bonds. During periods of stringency, seekers after safe investments drove up their market price and induced the banks to sell them at a profit, thereby reducing the amount of circulation just when inflation was needed. During flush times, they bought them from holders who sold them to invest in something more profitable, thereby contributing to an overabundance of currency which often led to rash speculation. Through its refunding programs, the government gradually withdrew many bonds, and the banks had to compete for them with those who sought them for investment purposes. Thus, whereas in 1865 there was $171,300,000 in the bank note circulation, $291,800,000 in 1870, and $344,500,000 in 1880, there was $318,600,000 in 1885 and only $186,000,000 in 1890, even though the limit on their volume had been repealed in 1875, permitting free banking. The banking system was not geared to the farmer, who needed special long-term credits sufficient to cover a season extending from the planting of a crop to its sale. Since his medium of exchange was cash instead of bank paper, and since the national banking system wiped out the small rural state bank, he was particularly hard hit.

The farmer had other complaints. The national banks could not lend on mortgages. Nor were their note issues acceptable in payment of customs, taxes, and public lands. It irked the farmer that the banker obtained a double profit, the interest on the bonds deposited with the treasury and the interest received from lending

his bank notes. Because the older banks were the first to receive the note emission privilege and the newer banks were in the South and West, the farmer charged that he was subjected to sectional discrimination. He saw that the concentration of financial power in the Northeast allowed a few men to enjoy a disproportionate amount of political power, and that the consolidation of economic gains into the hands of creditor interests was enhanced by the repeal of the wartime internal revenue taxes, except on tobacco and alcoholic liquors, by the reduction (1867) and abolition (1872) of the wartime income tax, and by the retention of high tariffs.

The inadequacies of the national banking system's long-term credit facilities drove the farmer to the eastern money market, deepening the gulf of sectional antipathy. To fill the credit vacuum left in the West and South came mortgage loans from eastern sources.[7] If hordes of landless Americans in the generation following the Civil War placed their faith in the future prosperity of the country and invested in farm land, they nevertheless paid a high price for their confidence. Until the mid-eighties land values generally appreciated. When the bubble burst they were squeezed out.

Many measures funding the war debt were enacted between 1865 and 1879, when the debt was reduced to $2,349,600,000, of which $346,681,000 was in greenbacks. Some bonds called for payment in gold or coin; others said nothing about the money to be used in redemption; and Jay Cooke, the treasury's bond sales agent, had promised coin (gold or silver).[8]

Because financial conditions improved and interest rates declined, Congress in the refunding acts of 1870 and 1871 issued, among others, noncallable 4 per cent 30-year bonds, failing to consider that interest rates might go still lower or that the treasury might later be in position to retire them at call. By 1880 the national debt of 1865 had been reduced by 50 per cent, and interest payments by almost 40 per cent. During the 1880's, treasury surpluses became a financial headache because the interest rate went below 3 per cent and after 1887, when the debt redeemable at par was extinguished, noncallable bonds could be retired only by buying them at high cost in the open market. Between 1888 and the middle of 1890 these purchases cut the national debt to a mere $725,000,000, thereby drastically reducing the number of national bank notes and

contracting the circulation. Once the national debt was extinguished, a serious problem would be posed by fiscal and currency laws that piled surplus revenues and a high proportion of the circulating medium into the treasury.[9]

By nationalizing the banking system, the Lincoln administration had made banking and currency problems national rather than statewide or sectional in scope. Now the people, as partners with the government in the new arrangement, would have much to say about its operation, but most national fiscal officials favored orthodox banking, currency and debt policies, and regressive tax policies. No legislation relating to the national banks was enacted or even considered from 1883 to 1890, and the American Bankers' Association's "Baltimore Plan" for strengthening and centralizing the national banking system could not even obtain a hearing.[10] For about seventy years this system withstood all challenges. It rebuffed all attempts to remove the tax on state bank notes. The legal tenders, first found to be unconstitutional, later held to be valid, caused trouble to future generations. State banks of deposit persistently challenged the entire system, forty years of wrangling occurred over methods of repaying the government's wartime borrowings, and the farmer's complaints against the system availed him nothing. Not until 1900 were the National Banking acts amended to permit the banks to issue notes to the full par value of bonds deposited instead of 90 per cent and to reduce the capitalization requirement for towns of less than 3,000 population to $25,000 instead of $50,000. Real reform in short-term credits as such awaited the Federal Reserve Act of 1913 and the Agricultural Credits Act of 1923.

The second of the two subcommittees of the Ways and Means Committee appointed in 1861 to study revenue measures and methods of obtaining loans, respectively, recommended the issue of non-interest bearing United States or treasury notes which would be legal tender even though not redeemable in specie. Banker opposition to these "greenbacks" was quick and sharp, and the Legal Tender Act passed, on February 25, 1862, largely because Chase asserted that it was the only way to provide the government with funds. Thus appeared the first real paper money issued by the national United States government.[11]

The first skirmish in the battle of the standards was the "paper

war" fought over the legal tenders issued during the Civil War. Many of those who agreed with Secretary Chase on the necessity of their issue, such as John Sherman and Hugh McCulloch, also pointed out the dangers of the experiment; legal tenders would raise prices, increase the cost of prosecuting the war, drive all specie from circulation, cripple labor, throw large wealth into the hands of the rich, and give the party in power the means of perpetuating its control of the government. Others charged that "fiat" paper was immoral, a breach of the public faith. However, there were those who believed paper money perfectly acceptable and justifiable; it would not depreciate because it was based upon the resources of the country and would increase the amount of the currency to fit the needs of an expanding economy.[12] Necessity overcame all opposition, and the $450,000,000 in greenbacks not only helped finance the war but became a symbol of prosperity to the agriculturists of the North and West.[13]

Whether the raising of more taxes and the sale of other bonds would have made the issue of greenbacks unnecessary is irrelevant,[14] for they were an historic fact, and the Congress, which had asserted that their first issue would be the last, authorized more and more of them. Tariff duties, the internal revenues, and the income tax of 1861–65 netted the government only $632,205,000. In contrast, long-and-short-term loans amounted to $2,142,000,000, to which should be added the issue of $450,000,000 in greenbacks and $50,000,000 in fractional currency. The problem of a way of repaying these debts fell first to Secretary McCulloch, 1865–69, who converted all the temporary obligations of the government and began their funding before leaving office and before the legal tender cases were decided. He recommended the sale of bonds for the retirement of the legal-tender notes and said that the only way to pay off the national debt was to raise taxes until government income exceeded expenditures. On December 18, 1865, the House resolved 144 to 6 in favor of the early resumption of specie payments. This resolution availed nothing, for normal peacetime contraction set in shortly thereafter.[15]

The greenbacks provided a constant subject for squabbling during the Gilded Age. They had proved troublesome by depreciating in terms of specie and goods from the moment they were issued.

While speculators and those who needed it bought gold at a premium with depreciated greenbacks, wage-earners paid in paper money suffered severely from inflation; their wages lagged far behind prices, which increased 116 per cent from 1860 to 1865. The government suffered too, for it had heavy expenses yet collected only a portion of its income in the specie required to pay the interest on its debt. The basic causes of the depreciation of the greenbacks were the great increase in demand by government's war spending and the consequent expansion of currency, credit, and income.[16] Inflationists were right in asserting that the Civil War was financed with a 50-cent dollar and paid back with a 100-cent dollar, for in 1864 the greenback went as low as 39 cents.

By 1868 McCulloch had used the Funding Act of April 12, 1866, to convert many short-term notes and certificates into long-term bonds, retire others, and reduce the greenbacks to $356,000,000.[17] But rather than "monetize" the paper debt by permitting its convertibility into bonds payable in coin, the Congress repealed the Funding Act in 1868, and, in his annual message of December, 1868, President Johnson alienated many by recommending that holders of government bonds be paid not more than the government had received from them in real money. In the three years following the end of the war little progress was actually made toward the resumption of specie payments, and no serious debate on the subject was heard for several additional years, the treasury meantime having raised the amount of greenbacks to $371,400,000.

But the currency question had now entered politics. The Middle West, particularly, protested against hard money redemption, and the Democratic platform of 1868 endorsed the "Ohio Idea" of paying the interest on the national debt in paper money.[18] But the Democratic presidential candidate, the New York banker Horatio Seymour, was "sound" on financial questions and repudiated it. Grant, who knew nothing about finance, took advice from rich sycophants on the subject. One of his first acts was to sign a gold payment bill on May 18, 1869. The inflationists suffered an additional defeat when during the next year the Supreme Court found the legal tender acts of 1862 and 1863 unconstitutional (*Hepburn v. Griswold*, 8 Wallace 603). However, a reconstituted court the following year found that greenbacks could be used to satisfy a

debt incurred either before or after the acts had been passed. Eventually, the court liberally interpreted the power of the Congress to "coin money and to borrow" and to issue currency.[19]

The constitutionality of the greenbacks having been settled, their quantity was the next question. Calling for "the same money for the bondholder and the plowholder," low income groups battled high income groups. Debtors, usually agrarians and generally inflationists, opposed creditors, usually those who had purchased bonds in depreciated greenbacks and wanted them paid in coin or in a greenback increased in value. The latter called themselves "sound money" men.

In 1872 the Democrats like the Republicans denounced "repudiation" in every form. If "Black Friday" of 1869 revealed dangers in too close a connection between the treasury and Wall Street, the depression beginning in 1873, which greatly deflated prices, inflamed agrarians against strangling financial measures which they believed emanated from the cities of the East. They opposed any policy that meant contraction of the currency as a "monstrous power" likely to rob them of their daily bread.[20] The attempt of the Republican Congress in April, 1874, to still the popular clamor for relief through the issue of additional "blood stained" greenbacks was vetoed by President Grant. The vote on the bill revealed that economic rather than purely political considerations dictated the casting of the ballots, for the Congress split geographically, with Ohio as the dividing line and the eastern members voting against the bill.[21] Hoping to saddle the Democrats with its enforcement, the lame-duck Republican Congress passed the Specie Resumption Act, "an expression of death-bed repentance," [22] submitted by Senator John Sherman and calling for permanent resumption of specie payments on January 1, 1879. Not a single Democrat voted for it.

This historic act further provided that the volume of greenbacks would be reduced from $382,000,000 to $300,000,000, that fractional paper currency would be replaced by gold coin, and that to resume specie payments the treasury could use any unappropriated surpluses in its coffers and, if necessary, sell bonds for coin. Failure to spell out the meaning of "coin" (though silver had not circulated for forty years) and failure to provide for the retirement of the greenbacks brewed trouble for the future. However, good

crops, a favorable balance of trade, an upswing in the business cycle, and his ingenuity in amassing gold from abroad enabled the secretary of the treasury, John Sherman, to put the act into effect on schedule.[23] Meantime a sop had been given the inflationists by an act which made the $346,681,000 in greenbacks then authorized a permanent part of the circulation, and a coalition of eastern Republicans and Democrats foiled an attempt by western Democrats to repeal the Resumption Act before it became effective. In 1879, after seventeen years of agitation, the inflationists had failed to stop the deflation which began in 1861. They had been inconsistent and sporadic in their attack and their success had been meager. They had lost the battle for redemption in paper but won that to declare the greenbacks constitutional. When the resumption of specie payments began on January 2, 1879, the greenbacks were quoted at parity, and their supporters had to rest content with the fact that most of them were now part of the national circulation. Agitation over them had not disappeared, however, before new arguments were heard concerning silver. The "Crime of 1873" had been uncovered in debates on the first free silver bills, introduced in 1876, and the basis had been laid for the battle of the monetary standards fought out through 1896.

Since Hamilton and Jefferson had agreed on the unique experiment of a bimetallic system, the national currency had not been treated as a strict party question. The law of April 2, 1792, established the mint, provided for the free and unlimited coinage of both gold and silver without charge for minting, and adopted the ratio of 15 to 1 by establishing a silver dollar of 371.26 grains and a gold dollar of 24.75 grains. (The ratio is determined by dividing the number of grains in the silver dollar by the number of grains in the gold dollar.)

The first problem encountered in the operation of the law was that of maintaining by legislative fiat a ratio between metals which changed in their relative amounts in the world's commercial markets. Since several European countries valued gold higher than the United States in relation to silver, gold went abroad during the early decades of the nineteenth century and left the United States on what was practically a silver standard. When Congress, in 1834, changed the ratio to 16 to 1, it overvalued silver, which in turn

tended to disappear from circulation. In 1837 and 1853 the Congress changed the ratio again, the second time to 14.882 to 1. This ratio allowed silver such a small premium over gold that no profit could be made by shipping it abroad in exchange for gold. The coinage of silver, therefore, was undisturbed, and the mint and coinage values remained practically the same until 1874, when they became equal. The American experience seemed to prove that bimetallism could be maintained by a careful adjustment of ratio so long as the relative amounts of the metals remained fairly constant, though no ratio was sacrosanct.

The problem was endlessly complex, and involved both domestic and foreign considerations. In the domestic sphere the monetary policy of the nation included a determination of the connection between the government, the treasury, and the banks, between gold and silver, and between coin and legal tender. Prosperity or depression, whether industrial or agricultural, provoked demands for raising or lowering the internal revenue taxes and customs duties to effect changes in the public debt and the treasury surplus or deficit. The amounts of gold or silver mined, exported, or imported, the balance of international payments, and the way in which the metals were treated all over the world had to be taken into account. At home, debate over currency policies captured the imagination of political parties, induced dissenters to form parties of their own, and incited class, sectional, and moral schisms. Opposition of debtor to creditor, the popular hatred of the "money power," and idealists seeking panaceas in utopian schemes further confused an already complex problem.

Having lost the war over resumption, inflation advocates burnished their arguments in favor of silver, the production of which had increased annually from $2,000,000 to almost $29,000,000 between 1861 and 1872, and to $45,000,000 in 1878, with the Comstock lode in Nevada yielding almost half of the latter. The bullion value of silver had meantime dropped from $1.03 in 1861 to $0.93 in 1878, and the ratio of silver to gold had dropped from 15.50 to 1 to 17.12 to 1. The silver producers wanted Congress "to do something" for silver. Powerless alone, they saw that they could hide their demand for governmental assistance behind the western and southern farmers' demands for an inflationary measure incited by the depres-

sion of 1873. But when they arose to their charge they found that in the congressional recodification of the coinage laws in 1873, begun in 1869 by John Jay Knox under the direction of Secretary Boutwell, the silver dollar had been dropped from the minting list. The Act had dropped from the list of authorized coins the silver dollar of 412½ grains, the standard silver dollar of the coinage, and had authorized in substitution a "trade dollar" of 420 grains.[24] No silver dollars of 412 grains had been coined since 1808, and since 1853 there had been no silver in circulation. To some it appeared that "the act simply made what was fact also law"; to others it constituted the "Crime of 1873."

There is no evidence that the silver dollar had been dropped from the coinage by fraud and collusion.[25] But, coming when it did, it lent credence to the story that the important commercial nations of the world had connived to discredit silver in favor of gold. The international monetary conference held in Paris in 1867 had recommended the gold standard, and in the following decade one nation after another adopted the gold standard and sought dumping grounds for silver. The simultaneous suspension of silver coinage by these nations and the increased production of American silver in large part accounted for the fall in the commercial value of silver following 1873.[26]

No objection was made to the passage of the act of 1873 because only eight million silver dollars had been coined from 1792 to 1873 and the market value of silver was 3 per cent greater than that of gold, with gold favored over silver by those who desired a greater volume of money in circulation. After that date, however, the demands that something be done for silver came from many sides. Free coinage of silver would force the government to buy practically the entire output of the American mines at a price greater than its commercial value. The general public, accustomed since 1834 to silver as an appreciated rather than depreciated metal, seemed favorably disposed to free coinage. Agitation for the free coinage of silver increased as the hope for more greenbacks diminished, and the rift widened between debtor and creditor, between soft and hard money advocates, between the East and the West and South. Debtors had preferred greenbacks to bank money because they were government money and not susceptible to control by

domestic or foreign banking interests. Failure to stop coin resumption drove the debtors to their second line of defense, that of a silver coin maintained at parity with gold. They were ably seconded by the American silver mine owners, whose selfish interest cannot be overlooked.

On March 2, 1877, a congressional commission reported in favor of remonetizing silver.[27] The national party platforms had been silent on silver in 1876, but in 1877 western Republican platforms began calling for remonetization. After the failure of several of his free coinage measures, Representative Richard P. "Silver Dick" Bland got one passed on November 5, 1877, by a vote of 167 to 53. Only six votes against it came from west of the Alleghanies and south of Mason and Dixon's line; only nine were cast for it by representatives from the New England and Middle Atlantic states, although the 92 "not voting" meant that many representatives were dodging the issue. The Senate, however, divested it of free coinage at 16 to 1, made silver a legal tender for obligations public and private "except where otherwise expressly stipulated in the contract," and limited the purchase of silver for coinage to not less than $2,000,000 nor more than $4,000,000 per month. It authorized the issuance of notes against coin deposited in the treasury and directed the president to invite the members of the Latin Monetary Union and other European nations to a conference with the United States with a view to agreement upon a ratio between gold and silver. (This second international monetary conference met in Paris in 1878 and failed to reach agreement.)

Extreme silverites castigated Allison's perversion of Bland's measure in the Senate, and Bland threatened to attach riders to appropriation bills if necessary to restore its pristine character. Failing in that, he favored "issuing enough paper money to stuff down the bondholders until they are sick," and voted for his amended bill only under protest. On the other side, men like Senator Sherman took political as well as financial considerations into account: the measure was immensely popular with the rank and file of all parties; it would placate the silver Republicans; it would pass over a presidential veto; and it would not inject enough silver into the currency to endanger either parity or government credit. President Hayes, however, characterized the bill as a "grave breach of the

public faith" and as authorization for the "violation of sacred obligations" and vetoed it. Congress promptly passed it over his veto, and the treasury's resumption operations halted.[28] Strangely enough, one month later Hayes approved the act of May 31, 1878, which prohibited further contraction of the "battle scarred and blood stained" greenbacks.

The Bland-Allison Act provided a "limping standard," one neither fully monometallic nor fully bimetallic, which pleased neither those who wanted unlimited free silver coinage nor those who granted gold alone. Nor could silver be used in settling international balances. Although western Democrat and Greenback state platforms demanded free coinage, the Senate rebuffed all bills providing for free coinage between 1878 and 1880. In July, 1880, Secretary Sherman privately stated, "The silver law threatens to produce within a year or so a single silver standard. . . . I could at any moment, by issuing silver freely, bring a crisis." [29] Garfield, a "sound money" man, was elected in November, and in his message at the end of the year President Hayes forcefully urged the suspension of silver coinage.

Cleveland began his first term in 1885 with the fear of the suspension of gold payments looming over financial circles. Even before his inauguration he was warned that President Arthur's secretary of the treasury was striving to maintain gold payments until March 4, 1885, so that the inevitable suspension would take place in a Democratic administration.[30] The pessimism of Cleveland's informant was founded on the results of both fiscal and financial policies. Another international monetary conference, held in Paris in April, 1881, "adjourned for politeness' sake," really *sine die*, without reaching agreement. Instead of using treasury surpluses to pay off the national debt, the Arthur administration spent them on pensions and river and harbor works. Protectionists killed its attempt to lower the tariff duties and thereby reduce the revenues, and reductions of the internal revenues coincided with a period of adverse trade balances and, more important, the piling up of silver in the treasury which helped cause the recession of 1884.[31] Under the Bland-Allison Act, although every secretary of the treasury had kept silver purchases to the minimum required, the government had minted 378,166,000 silver dollars and had succeeded in forcing

much of this amount into trade channels, only to find silver redundant during and after the short business depression beginning in 1883.[32] While the government was paying its creditors in gold, its debtors were paying their obligations in silver. Silver was being exchanged for gold at the treasury by those who needed it to make contractual payments at the same time that the government, with customs dwindling, was expected to maintain both a gold reserve of $100,000,000 and parity between gold and silver.

In 1875 Congress had empowered the secretary of the treasury to sell bonds to establish in the treasury a reserve fund for gold for the redemption of greenbacks. Although no definite sum had been specified, the public had come to regard $100,000,000 as a safe minimum, a minimum which Cleveland respected and eminent financiers held sacred. Such men as Abram S. Hewitt, Manton Marble, Samuel Randall, and Samuel Tilden, suspecting that silver might replace gold as the standard of value, urged Cleveland to express himself in favor of relieving the danger to gold by stopping the coinage of silver. Hewitt and Randall hastily prepared an appropriate bill. The silver men countered with a round robin addressed to Cleveland, February 11, 1885, signed by ninety-five Democratic congressmen, in which they urged him to stand fast against the demands of those who would suspend silver coinage. Cleveland was warned that the South and West would not agree to the suspension of silver coinage, that three-fourths of the Democracy opposed suspension, and that suspension would kill all his hopes for other desirable reforms and weaken his party in many states recently converted from Republicanism.[33] Although Cleveland felt it indelicate for a president-elect to appear to meddle in the affairs of Congress, he deemed the danger grave enough to warrant expressing himself. He allowed Tilden and Marble to draft a public letter which he signed reluctantly and addressed to the avid silverite, Representative A. J. Warner. He deemed it "most desirable . . . to maintain and continue in use the mass of our gold coin, as well as the mass of silver already coined. This is possible by a present suspension of the purchase and coinage of silver. I am not aware that by any other method it is possible." [34]

"Your silver letter is absolutely perfect. It is the only silver thing I know that transmutes itself into gold," Tilden wrote Cleveland.[35]

Ex-President Hayes confided to his diary that he was more pleased with Cleveland than was the majority of the Democratic party.[36] As a result of his position, however, the first Democrat elected president in twenty-four years was slapped in the face by his party even before his inauguration. Two days after the publication of his letter Congress overrode Hewitt's suspension bill, with a majority of 118 Democrats and 52 Republicans against 54 Democrats and 64 Republicans. Nevertheless, Cleveland had served notice that he would be deaf to all inflationist schemes.

Cleveland remained obdurate in his demand for the suspension of the compulsory coinage clause of the Bland-Allison Act and equally unyielding toward the barrage of bills providing for the free coinage of silver which marked the first half of his administration.[37] Cleveland repelled all attacks, even if by slim margins. The House in turn refused to carry out the administration's wishes with respect to silver. Ironically enough, the president found his most telling support against silver in the Republican Senate. For the last two and a half years of his administration the deadlock remained unbroken.[38] A fourth international monetary conference failed to reach agreement, and a British royal commission in 1888 evenly divided, half rejecting bimetallism, half recommending it.

The Republicans won the elections of 1888 on a platform which favored both silver and gold. Heretofore scattered elements favoring silver were beginning to organize on a national scale at the instigation of the silver mine owners and under the leadership of both private and public men of the Middle and Far West. The First National Silver Convention, which met in St. Louis late in November, 1889, summarized the feelings of the silverites. It resolved that the demonetization of silver worked a practical violation of every contract, was responsible for a drop of more than 30 per cent in commodity prices,[39] contracted the currency, and made debts practically perpetual by taking from the debtor his ability to pay. It resolved that the 51st Congress should require the secretary of the treasury to coin the maximum of $4,000,000 of silver each month, as provided by the Bland-Allison Act, until it could provide for the free and unlimited coinage of silver. The platform, written by Bland, was adopted enthusiastically by the delegates of thirty states and territories stretching from Ohio to Kansas, with the representa-

tives of the farming areas more impassioned in their pleas for silver than those of the mining states.[40]

In 1889 the president, Senate, and House, for the first time since 1875, were all Republican, but the majority in the Congress consisted of only eight men in each house. The party was pledged to tariff reform, "the use of both gold and silver as money," and increased governmental expenditures because surpluses dogged the treasury. William McKinley, who had favored the larger use of silver since his election to Congress in 1876 and who was now chairman of the Ways and Means Committee, led the House into believing that something must be done for silver in order that the issue of paramount importance to him, tariff reform "upward," should encounter no opposition from the silverites.

There were enough Republicans in the House who, if nothing were done for silver, would vote with the Democrats for free silver coinage. There were also a sufficient number of silver Republicans in the Senate, the eighteen men in the western or silver bloc, to insure the passage of a free coinage bill or to kill a higher tariff law. Secretary of the Treasury William Windom would have had the government buy at the market price all the American and foreign silver offered it and issue against it silver certificates redeemable in silver at its market price. Unable to study this plan thoroughly, President Harrison refused to endorse it.[41] At the time the ratio of silver to gold was 22 to 1 and the silver bullion value was 72 cents. The bill embodying Windom's scheme was defeated in the Senate, after which a free coinage substitute was approved by 42 to 25, the majority including 16 of the 18 in the silver bloc. That same day, June 5, the Senate decided to sit on the McKinley tariff just received from the House. Following a strenuous contest in which Bland led the Democrats and McKinley the almost solid Republican vote, the House disagreed with the Senate (135 to 152) and the bill went into conference. There Senator Sherman, who had had little to do with the matter until it reached the conference committee, acted the part of the great compromiser. Fearing that if he failed a free coinage measure would be passed and that Harrison could not be depended upon to veto it, he remodeled the bill into the shape in which it finally passed. On July 14 the Sherman Silver Purchase law passed the House by 123 to 90, 116 not voting, and the Senate by 39 to

26 by strict party vote,[42] and the McKinley tariff was passed soon thereafter.

The Sherman law was a compromise that simply staved off unlimited silver coinage by allowing a more liberal purchase plan. Western Republicans who cared little for a protective tariff but much for free silver traded votes with eastern Republicans who cared much for protection. Not a Democrat voted for it, not a Republican against it.[43] When Speaker Reed attempted to bury the Senate's free coinage bill in committee, McKinley moved that it be forced into the light.[44] In another compromise, southern senators gave up their plan to filibuster until Lodge's Force Bill was killed in return for allowing a vote to be taken on the McKinley tariff bill. Colorado's Senator Edward O. Wolcott, steered by his colleague, Henry M. Teller, then served notice that the silver men were entitled to as much consideration as the tariff interests and that if something were done for the East as much should be done for the West.[45]

The new law authorized the treasury to purchase monthly four and a half million ounces of silver bullion for coinage into dollars, to be paid for with treasury certificates of full legal tender. These were redeemable in gold or silver at the discretion of the secretary of the treasury. The price paid for 371.25 grains of pure silver was not to exceed $1 (equal to $1.2929 per ounce); after July 1, 1891, standard dollars could be coined only when necessary for the redemption of the notes. The law also reiterated the government's purpose to maintain gold and silver at parity.

Unlike the notes of 1878, the new treasury certificates were full, not partial, legal tender. Since they could be redeemed by the treasury in either gold or silver, silver was on a parity with gold. Under the old law, purchases of silver were made with dollars; under the new law, by ounces. Before, each dollar bought more silver as silver's price fell; now the same number of silver dollars would be added to the circulation even when the price of silver fell.

The Sherman law provided for government purchase of the entire silver output of the American mines. It reassured those who feared that such large purchases of silver would result in depreciation of the standard by promising note redemption in either gold or silver. Although the banks readily accepted the treasury certificates,

predictions were made that a crash would follow within eighteen months, and the suspension of silver coinage on July 1, 1891, because note redemption was not being demanded, provoked both vociferous abuse and loud praise. As a result of the Baring panic of 1890, American gold was called abroad. With seven-eighths of its customs duties paid in silver certificates and only one-eighth in gold, the government found itself again short of gold. Those who had predicted a crash pointed to silver as its major cause.

The supply of currency in circulation increased about 50 per cent between 1866 and 1896. The amount of gold added, about $800,000,000, was not only insufficient but unstable, fluctuating with the shifts in the balance of international payments. The reduction of about $126,000,000 in national bank note circulation between 1886 and 1890 confirmed the silverites in their contention that the monetary medium would be insufficient without the use of silver. Since industrial production had increased at a rate even greater than that of the monetary supply, they asserted that the amount of silver injected into the circulation between 1878 and 1890 had not proved excessive; more currency was needed simply to provide the community with the means of carrying on larger trade and business transactions.[46] Finally, by comparing the value of silver and of gold with commodity prices, they concluded that it was more nearly correct to say that the gold dollar of 1873 had become a two-dollar dollar in 1893 than it was to say that the silver dollar of 1873 had become a 50-cent dollar, that gold had appreciated rather than that silver had depreciated.[47] But they overlooked two cogent facts. First, commodity prices had fallen in the United States from 100 in 1873 to 71.5 in 1893; second, by 1890 almost 90 per cent of the total volume of business transactions was made by check, and only 10 per cent in currency. Moreover, silver was being accepted by the banks only because a law of 1882 prohibited the extension of the charter of any national bank that accepted membership in a clearinghouse that refused silver. To those who believed in the quantity theory of money [48] and to the millions who had no checkbooks and hated the banks, these facts made little sense.

Objections to the Sherman law, including Sherman's, were voiced even while the vote was being recorded.[49] President Harrison later admitted that he did not understand the law and that he signed

it because Sherman, Aldrich, and Windom assured him that he could do so safely. The East objected to the law's involving the dangerous possibility of silver monometallism; the West complained that it did not provide for the unlimited coinage of silver. The West could not believe that the new law would furnish more money than the nation could absorb. Indeed, it would have been pleased to see the predictions of its eastern critics come true and have silver drive gold out of circulation and force a rise in the price level.[50]

The Sherman law gave the silver miners all the support they could expect from the government; yet in November, 1890, twenty state conventions went on record as favoring unlimited silver coinage and the Republicans lost the House and many governorships in a sweeping political reversal. The balance of trade had turned against the United States in 1888, the Baring failure of 1890 soon ramified to New York and South America; early in 1893 the United States was engulfed in a worldwide depression which stimulated vociferous debate over the efficacy of the Sherman law and worldwide concern with devising improved currency systems. Attempts to organize the American farmer and laborer since the early 1870's apparently stood on the threshold of fruition in the formation of the People's party in 1892. The year following July 1, 1893, witnessed Coxey's army, the Pullman strike, the failure of the Wilson tariff bill, and the first sale of bonds for gold. William H. Harvey's best seller, *Coin's Financial School*, appeared in June, 1894.[51] Cleveland, returning as president in 1893, persisted in favoring gold and thereby enabled the relative newcomer to politics, William Jennings Bryan, to contend with him for the control of the party. In January, 1896, various silver propaganda organizations merged into the American Bimetallic Union, and the nonpartisan National Silver party was also born. Finally, the election of 1896, although very narrowly won by the Republicans, settled the currency issue for the foreseeable future on the gold basis favored by industrial, financial, and urban America.[52]

By 1892 the base of support for the old agrarian-labor parties had widened. Terence V. Powderly of the Knights of Labor and Samuel Gompers of the American Federation of Labor were aided by a host of political friends including John Peter Altgeld, Clarence Darrow, Henry D. Lloyd, and Lyman Trumbull.[53] Political leader-

ship in the agrarian field devolved upon such picturesque personalities as Mary E. Lease, Ignatius Donnelly, "Sockless" Jerry Simpson, the marvelously bewhiskered William A. Peffer, the ubiquitous James B. Weaver, the irascible Tom Watson, and the affable Bryan.[54] Bryan and many Populists believed and convinced millions of others that there existed an international conspiracy of creditors to despoil the poor, "one destined in its consummation to produce more misery than war, pestilence, and famine," as Bryan put it, and that the fall in the price of agricultural products was directly related to the decline in the price of silver.[55]

Statehood came to six western territories in 1889 and 1890—the Dakotas, Wyoming, Washington, Idaho, and Montana. They were all Republican and all silverite.[56] Their seeking special support for their mining and agricultural interests was as natural and understandable as the industrialists' demanding high tariff duties. To the industrial-financial-urban, and to the silver interest, was now added a third, the combination of farmer-laborer groups into state organizations and finally into a third party that sought to span both the agricultural and silver interests.

From the days of Daniel Shays, inflationist sentiment has fascinated the American farmer, so long as he remained a debtor, and the American worker, so long as he was caught by low or fixed wages and rising prices. The early 1890's were particularly aggravating to these groups which had so much in common. The East saw labor violence and radical politics. In the West, the boom times enjoyed during the period of rising land values in the early 1880's, while rain fell, ended when drought hit. Europe's crops were good, and new foreign areas, such as India and Argentina, began to export wheat. Having no crops to tend, thousands and tens of thousands of farmers met in schoolhouses and elsewhere to voice their grievances and demand government action for their relief, to "raise less corn and more Hell," as Mrs. Lease suggested. The organizations they established built directly upon the Granger and Greenback movements, aiming to force the decent treatment of farmers by monopolies. Their lack of success spurred many of them to join political organizations stressing financial reforms.[57]

The National Labor Reform party of 1872 called for the abolition of the national banks, a true national currency, and the repudia-

tion of the government's funding program. Four years later, the Independent National party adopted a platform almost wholly financial in character, demanding the repeal of the Specie Resumption Act of 1875, authority to purchase interest-bearing bonds with paper money, the suppression of national bank notes, and an end to the government's right to sell bonds for foreign gold. The miniscule vote of 30,000 for the National Labor Reform party increased to 81,700 for the Independent National party in 1876. The Independents had only sectional appeal; their votes came only from Illinois, Indiana, Iowa, Kansas, Michigan, and Missouri. When laborers and farmers joined in 1878 into the Greenback Labor party, they received votes from California, Georgia and Maryland, and Pennsylvania, New York, and Maine as well as from the Middle West, and their million votes enabled them to send fourteen representatives to Congress. By 1888 the Party was moribund due to labor's withdrawal. It had received only 175,400 votes in 1884, and many of its members now transferred to state alliances and People's parties.[58] The party nevertheless left behind statewide organizations from Illinois to California which objected to the special privileges extended by the postwar Republican administrations to industrial and financial America. Men who had countered the contractions of the currency implicit in the resumption of specie payments now shifted to silver as a device to cheapen money and provide relief from debt, retained a vision of gathering into one party all the "honest workers" of the nation, and furnished much of the leadership of the national Populist party.[59]

The People's party built upon statewide or sectional farmer-labor organizations, especially upon the Northwest Alliance and the Southern Alliance, and hoped to merge the political power of the western farmer and eastern worker. By the 1890's, however, the urban workers, although unhappy with the increase in real wages since 1865, began to support their employers against the inflation and consequent high food and textile prices demanded by the farmer. Like the Greenbackers, the Populists attacked special legislative privilege to the masters of capital who despoiled America's natural resources, demanded "equality" of treatment for agrarian America, and concentrated upon financial reforms.[60] Their first platform, adopted in 1892, was particularly concerned with the

issues of land, finance, and transportation. Following a preamble which dramatically provided a rallying cry for liberals everywhere, they demanded a national currency issued by the government without the use of intermediary banks, free silver at 16 to 1, a circulating medium increased to not less than $50 (or twice that extant), and a sub-treasury scheme for the extension of low-cost government farm credits.[61]

Official and popular debate over the currency increased between 1890 and 1893, and continued in flood proportions through 1896.[62] In his annual message for 1891, President Harrison asserted that while government purchases of silver had not raised its price to a dollar in terms of gold, the additional currency had benefited trade and prices. He was willing to give the Sherman law a 'full trial" but warned of the dangers of silver monometallism and of the need of international agreement.[63] On March 24, 1892, despite support for a Bland silver bill by Speaker Charles F. Crisp, his fellow Democrats, and the Alliancemen, it was defeated by a tie vote.[64] Harrison's announcement of the holding of an international monetary conference forestalled vigorous action in favor of silver, but now the gold men took the offensive in the form of a bill calling for the repeal of the 10 per cent tax on state bank notes provided in the national banking act amendments. Although the measure would implement the Democratic platform, western Democrats denounced it as permitting "wildcat banking" and as constituting a surrender of the nation's sovereignty over the coinage into the hands of private corporations.[65] His ardor undampened by the nomination of Cleveland in June, Bland introduced another silver bill and the Senate actually passed one by a majority of four on July 1. Bland demanded a showdown. When the bill failed, silver went back to the calendar for the rest of the session and Bland's prestige sank. Now the turn of the gold men, Sherman introduced a bill calling for the unconditional repeal of his own Silver Purchase law, but the Congress adjourned without acting upon it.[66]

In the short session of the 52nd Congress (December 5, 1892 to March 4, 1893) two propositions split the House Democrats. The Andrews-Cate bill would repeal the Sherman law and also permit the national banks to increase their circulation. Another bill would repeal both the law and the tax on state bank note issues. Silverites

held that the repeal of the Sherman law, that "cowardly makeshift," should not be accomplished unless a substitute could be secured that would prevent contraction of the currency without at the same time augmenting the powers of either the national or the state banks. Cleveland pressured Crisp, saying that he would approve his re-election as speaker only if the majorities on the Ways and Means, Appropriations, Coinage, and Banking committees were composed of gold and low tariff men. The president also pointed out that in 1889 he had left Harrison a treasury surplus of $226,000,000, of which $196,000,000 was in gold. Now, except for the $100,000,000 reserve, the treasury was practically empty. He and his prospective secretary of the treasury, John G. Carlisle, favored the repeal of the Sherman law, and he warned that he would use the patronage club against those who opposed repeal and that if repeal was not accomplished by March 4, 1893, he would call Congress into extraordinary session to do so.

On February 3, 1893, the Senate defied Cleveland by refusing to pass Sherman's repeal bill. On February 8, the House did likewise by defeating the Andrews-Cate bill, but the closeness of the vote, 153 to 142, showed that repeal and anti-repeal strength was as equally divided in the House as in the Senate. Sponsors of silver, meantime, killed all bills authorizing the sale of bonds for gold, asserting that contraction of the currency would not bring permanent relief to the people. Moreover, they argued, there was no further need for the $100,000,000 redemption fund. This fund had been established when specie payments were resumed, and fear was felt of a drain on the gold reserves. Now $30,000,000 or $40,000,000 would do. Furthermore, the obligations of the United States, whether bonds, greenbacks, or treasury notes, called for redemption in "coin," which meant gold or silver, not gold alone. Of what advantage was it to issue bonds for gold if the gold were obtained in an endless chain by the presentation of greenbacks for redemption? And why issue bonds to buy gold when silver lay ready for use in the treasury? [67] Such arguments were bolstered in the 53rd Congress by the four senators and eleven representatives the Populist party had gained in the elections of 1892.

The financial crisis forced Cleveland to abandon the tariff issue to save gold.[68] Cleveland entered the presidency with only $100,-

942,410 in the gold reserve. Export needs drained $25,000,000 from the treasury in December, 1892 and January, 1893; February started with a reserve of only $108,000,000, and Harrison's secretary of the treasury, Charles Foster, ordered the preparation of plates for a bond issue, an order withheld while he borrowed gold from the New York banks. In his inaugural address Cleveland asserted that he would avert debasement of the currency and disaster to the nation by repealing the Sherman law. To this end he would use the patronage, his party organization, and the influence his position carried in the Congress and with the public.[69] In this, Cleveland opposed such Democrats as Bryan, who believed government was made for the convenience of the people. Cleveland demanded stability while Bryan would experiment. If free silver failed, Bryan would try something else, but above all he would try something.[70]

There was not a single silver mine in the entire South, but the South vied with the West in demanding free silver at 16 to 1, and western and southern Democrats, western Republicans, and the Populists cooperated in mutual defense of their sections and interests.[71] They argued that under demonetization of silver all debtors would pay their debts in a commodity worth far more than at the time the debts were contracted and thus give creditors an unearned increment. By contracting the currency, it would appreciate the value of gold and reduce prices still further, preclude capital investment, prevent re-employment, make competition with the cheap labor of silver countries like India and China impossible, and make debts practically perpetual. Bimetallism would reduce the appreciation of gold, restore the ratio of the metals to near the time-honored ratio of 16 to 1 and also of the fixed par of exchange between countries on different metallic standards, and prove a more stable standard than one metal alone and therefore greatly lessen the evils of fluctuating and falling prices.

To Cleveland's support, in general, came the Democrats and Republicans of the East and of the industrialized portions of the Middle West, and of the business and professional community. These demanded stability of the currency as a basis for confidence of business prosperity in the future. Silver, they said, was bulky and inconvenient as a medium of exchange. Cheap silver would drive gold out of circulation, thereby reducing the amount of money,

most of which was in the form of credit anyway; [72] moreover, paper money rather than coins performed about 75 per cent of all business transactions. The fall in prices since 1873 was caused by better methods and more production, not by demonetization. It was a delusion to have any but a single standard, for how could one measure value by two differing yardsticks? [73]

By April, 1893, the gold reserve had dropped below the $100,000,000 mark. Regarding it as an index by which to measure the maintenance of the gold standard, Cleveland insisted that he would "keep the public faith and preserve the parity between gold and silver and between all financial obligations of the government." When the international monetary conference called in 1891 failed to reach agreement in April 1893, Cleveland and Carlisle began seeking loans in the New York money market. On May 4 the failure of the National Cordage Company ushered in the panic of 1893,[74] beginning five years of falling prices,[75] business failures, unemployment, and severely reduced government income. Western farmers also suffered a partial crop failure. When the price of silver fell by the astounding sum of 20 cents because of the demonetization of silver by India in June, the American farmer believed another link had been fashioned by the gold men in the inexorable chain with which they would bind to earth the debtor classes of the world.[76]

Silverites denied that the government's silver purchases had caused the panic and depression, for the depression was worldwide and affected the gold standard nations as well as the United States. European investors in need of cash had sold their securities in the United States, they explained, thereby draining our gold reserves, and American banks had ruined many sound businesses by "running scared" and refusing ordinary credits. What should be done? Restoration of confidence, asserted the silverites, would follow if the people would put their money back into the banks. Then loans could be made and business would revive. The power to issue currency should be taken from the banks and placed where it rightfully belonged, with the government. And the Sherman law should remain untouched, for it was a sure way of getting money into circulation during the hoarding of gold.

Two weeks prior to the convening of the special session of Congress called by Cleveland on June 30 for August 7, 810 dele-

gates representing forty-two states and territories attended an American Bimetallic League convention in Chicago and planned strategy for warding off the repeal of the Sherman law. Weaver's suggestion that all free silverites embrace the Populists' Omaha platform of 1892 was declined, as was that of the creation of a distinctly new national silver party. The delegates agreed that all legislation unfavorable to silver must be defeated, that the financial policy of the nation must remain free from dependence upon that of any other nation, and that the only remedy for current conditions lay in the unlimited free coinage of silver at 16 to 1.[77]

The battle over the repeal of the Sherman law had political as well as economic significance, for Bland, recognized as the outstanding silver leader, must defeat Cleveland in order to win the presidential nomination in 1896 or give way to some other silverite, perhaps Bryan. Seeking a compromise, Bland offered a series of bills providing for free coinage at ratios from 16 to 1 to 20 to 1. All of Bland's bills were defeated, as was the proposal to return to the Bland-Allison Act. On the repeal of the Sherman law, which was accomplished by a vote of 239 to 108, four-fifths of the Republicans voted aye while the Democrats divided, 138 aye to 78 nay. Since only two-thirds of the Democrats stood by Cleveland, he won because of Republican support.

While the Senate Finance Committee worked on its repeal bill, the House silverites struck back with a demand for the coinage of the seigniorage,[78] castigated Cleveland for his obstinacy in pushing repeal, and charged him with causing "the disintegration of the Democratic party in the South and West." For eighty days, free silver senators conducted the longest filibuster then on record. On October 20, the repeal bill passed nonetheless, 48 to 27, with the Democrats dividing equally, 22 to 22. Almost all of the nays came from the South, and all but one of a dozen Republican votes cast against the bill came from the representatives of silver-producing states.[79] On November 1, before an excited House, the silverites failed to jam the proceedings by offering obstructionist motions and finally admitted defeat, but they left predictions of dire consequences. The unconditional repeal of the Sherman law would stop the purchase of silver and the issue of new treasury notes and limit the currency to gold and to whatever notes the national banks

found it profitable to issue. Moreover, to support the gold standard the administration must issue gold bonds, and the national debt should not be increased in times of peace. Repeal, in sum, was the "Crime of 1893" which would bury the Democrats in the next elections.

By a captivating *post hoc* argument, inflationists insisted that silver was not wholly to blame for the depression of 1893 because economic conditions got worse immediately following repeal and did not improve materially for more than four years.[80] As prices dropped, unemployment spread, and farm foreclosures increased, free silver loomed large as the principal issue for the campaign of 1896. And for his last two years the Congress denied most of Cleveland's demands for additional financial reform legislation.

The Resumption Act of 1875 authorized the sale of government bonds only for the redemption of greenbacks, not for maintaining monetary parity. Attorney General Richard Olney ruled that such bonds could not be sold if they called for payment in gold alone, and Congress refused Cleveland authority to sell gold bonds. But Cleveland meant to issue bonds whether the Congress liked it or not. Using the only authority available, that for long-term issues at high interest rates in the refunding acts of 1870–71, Carlisle ordered the issue of "coin" bonds. Then Cleveland put pressure on Speaker Crisp, who narrowly defeated a move to pass a seigniorage bill over his veto. This bill, the silverites believed, would have obtained sufficient profit for the government to make the sale of bonds unnecessary, and its defeat further widened the gulf between the eastern and western wings of his party. On April 4, with the defeat of the seigniorage bill, the government was out of the silver business altogether for the first time since 1878.

Cleveland's two sales of gold bonds in 1894 were made through syndicates including J. P. Morgan and Company. When much of the gold paid for the bonds was found to have been withdrawn from the treasury, the government, in 1895, resorted to foreign gold via a private contract with J. P. Morgan and Company and sixty-one European associates. This incited raucus western and southern cries against the "cursed plutocracy" which had "seized control of the government," for Cleveland could have sold the bonds by popular subscription, and assertions that "Wall Streeters and their gold

roam through the administration like panthers through their native jungles," for the syndicate had measured the emergency of the government with little mercy. The last bonds sold by subscription (January, 1896) gained the government little because of the paper money endless chain.[81]

Cleveland had consciously cast his weight toward those with vested interests. Far removed from the people, he took advice from Wall Street friends and refused to permit the government to aid the millions of unemployed. By selling bonds he saved the gold standard but saddled the country with a debt of about $262,000,000 from which the bankers profited. Lacking sufficient imagination to perceive the sincerity of silverites, he shattered Bourbon control of his party.[82]

Neither gold man nor silver man was wholly right, for neither at the time envisaged currency plans based upon the nation's wealth in resources other than gold or silver, although irredeemable paper money was vaguely based upon the government's ability to pay. Free silver would not have provided the just and flexible currency the silverites demanded. Nor would it have provided the "complete justice" they sought. But they were at least willing to experiment to relieve the nation's financial distress and prophetic in their demands that the federal government take the lead in solving a problem national in scope.

In 1896 Bryan, the choice of the Democrats, was endorsed by the Populists, the silver Republicans, the National Silver party, and all the minor parties worth noting. He erred in waging a sectional war of the West and South against the East and in campaigning on free silver almost exclusively, but he followed logic which told him that free silver must serve until an "honest" or "commodity" dollar could be obtained, that reform of the currency was the most important of all issues, and that less important problems could be solved later.[83] McKinley's currency plank called for the maintenance of the gold standard until international bimetallism could be attained. In 1897 he tried unsuccessfully to get the important nations of Europe to convene an international conference, and was forced to wait three more years before the Gold Standard Act of 1900 officially made gold the monetary standard. He was indeed fortunate that the South Africa and Alaska gold finds of 1896 and the cyanide process

of extraction furnished enough currency to serve the nation's and the world's growing needs for a decade. In 1906 Bryan asserted that the influx of gold and resulting prosperity proved the quantity theory of money.[84]

What moral followed the story of the currency issue for students of American politics? How could an issue which died so quickly have been so consuming and the cause of such intense partisanship to the last generation of the nineteenth century? What men thought, not what they knew, as is so often the case, made history in these years, and many men thought that currency reform was the solution of their ills. Like all great political issues, free silver rose above either the force or weakness of its inherent facts to become an emotional touchstone to the politics of the day. The secret of its appeal lay not in its complexity, which was apparent to the careful student, but in the paradoxical simplicity by which it seemed to many to be an easy solution to the social, economic, and political ills of the day. If free silver were adopted, they reasoned, the economic barons would lose control of the economy, thus restoring equality of opportunity in the market place; they would lose their privileged social positions, thus opening social vistas for more men; and they would be driven, along with special privilege, from the government, which would thus be returned to the people. Currency control was the keystone in this complex arch of special privilege in all spheres of American life; once removed, the arch would fall.

And so it went for a generation, as orators and writers of both parties poured out a stream of persuasive propaganda on behalf of their cause. Like most magic potions, free silver was to cure all ills. In that tacit understanding lay its vast and often hectic appeal to many alienated groups in American society who either did not understand or would not see that the ills for which the medicine was prescribed were susceptible to no such easy cure.

6
Greenbackers, Goldbugs and Silverites
Currency Reform and Politics, 1860–1897

1. Bray Hammond, *Banks and Politics in America* (Princeton, 1957), pp. 722–23.
2. John Sherman, *Recollections of Forty Years in the House, Senate and Cabinet*, 2 vols. (New York, 1895), I, 290.
3. A. B. Hart, *Salmon Portland Chase* (Boston, 1899), p. 223; Hugh McCulloch, *Men and Measures of Half a Century* (New York, 1889), pp. 168–70.
4. *Ibid.*, pp. 163–65.

5. Andrew M. Davis, *Origins of the National Banking System* (Washington, 1910), p. 97; A. Barton Hepburn, *A History of the Currency of the United States* (New York, 1915), pp. 307, 310; Sherman, *Recollections*, I, 271, 287.

6. Connecticut alone had more national bank notes in circulation than Michigan, Iowa, Minnesota, Kansas, and Kentucky combined; Rhode Island had $77 per capita and Arkansas $0.13. Gilbert C. Fite and Jim E. Reese, *An Economic History of the United States* (Boston, 1959), p. 468.

7. James W. Gleed, "Western Mortgages," *Forum*, 9 (March 1890), pp. 93–105.

8. *See* Ellis P. Oberholtzer, *Jay Cooke*, 2 vols. (Philadelphia, 1907), I, 121–574; Henrietta M. Larson, *Jay Cooke* (Cambridge, 1936).

9. Alexander D. Noyes, *Forty Years of American Finance* (New York, 1909), pp. 123–26.

10. Horace White, "A Plan for a Permanent Banking System," *Forum*, 12 (December 1891), pp. 477–82; Hepburn, *Currency*, pp. 332, 342, 357–58.

11. Treasury notes in the form of "bills of credit" had been issued in the administrations of Monroe, Van Buren, Tyler, Polk, and Buchanan. Although not made legal tender they were still receivable for public dues. John Jay Knox, *United States Notes* (New York, 1884), pp. 21–79.

12. Hepburn, *Currency*, pp. 186–91; Edwin W. Kemmerer, *Money* (New York, 1935), pp. 238–43; Robert P. Sharkey, *Money, Class, and Party* (Baltimore, 1959), pp. 15–16, 29–50.

13. Knox, *United States Notes*, pp. 80–147.

14. Wesley Mitchell, *A History of the Greenbacks* (Chicago, 1903), pp. 10–15; Sharkey, *Money, Class, and Party*, pp. 18–19.

15. Hepburn, *Currency*, pp. 205–07; Rendigs Fels, *American Business Cycles, 1865–1897* (Chapel Hill, 1959), pp. 55–136.

16. Paul Studenski and Herman E. Kroos, *Financial History of the United States* (New York, 1952), p. 147; Sharkey, *Money, Class, and Party*, pp. 51–55.

17. McCulloch, *Men and Measures*, pp. 204–09; Noyes, *Forty Years*, pp. 11–16.

18. Hepburn, *Currency*, pp. 209–11; Chester MacA. Destler, "The Origin and Character of the Pendleton Plan," *Mississippi Valley Historical Review*, 24 (September 1937), pp. 171–84; Max L. Shipley, "The Background and Legal Aspects of the Pendleton Plan," *Ibid.*, 24 (December 1937), pp. 329–40.

19. Knox, *United States Notes*, pp. 156–66; Gerald T. Dunne, *Monetary Decisions of the Supreme Court* (New Brunswick, 1960).

20. Davis Rich Dewey, *Financial History of the United States* (New York, 1936), p. 370; George Anderson, "Western Attitude Toward National Banks, 1873–1874," *Mississippi Valley Historical Review*, 23 (September 1936), pp. 205–16; Chester MacA. Destler, "Western Radicalism, 1865–1901: Concepts and Origins," *Ibid.*, 31 (December 1944), pp. 335–68.

21. Dewey, *Financial History*, pp. 361–73; Matthew Josephson, *The Politicos, 1865–1896* (New York, 1938), p. 188.

22. Noyes, *Forty Years*, p. 21.

23. *Specie Resumption and Funding*, House Executive Document IX, 46th Congress, 2nd session; D. C. Barrett, *The Greenbacks and the Resumption of Specie Payment 1862–1879* (Cambridge, 1931); Sharkey, *Money, Class, and Party*, pp. 107–40.

24. John M. Willem, Jr., *The United States Trade Dollar* (New York, 1959), pp. 55–69, 111–24.

25. Dewey, *Financial History*, p. 403; *Hepburn, Currency*, pp. 270–73; Noyes, *Forty Years*, pp. 135–36; *History of the Coinage Act of 1873*, Senate Misc. Document No. 132, 41st Congress, 2nd session.

26. Great Britain was already on the gold standard. In 1871 the newly formed German nation and Holland and Spain adopted gold. Then the Latin Monetary Union—France, Belgium, Switzerland, and Greece—suspended the free minting of silver. The formation of the Scandinavian Monetary Confederation in 1873 resulted in the adoption of the gold standard by Sweden, Norway, and Denmark. Thus by the end of the 1870's practically every important European country had stopped minting silver.

27. *Senate Report No. 703*, 44th Congress, 3rd session.

28. David S. Muzzey, *James G. Blaine* (New York, 1934), pp. 137–38; Charles Richard Williams, *Rutherford Birchard Hayes*, 2 vols. (New York, 1914), II, 129–36; Leland L. Sage, *William Boyd Allison* (Iowa City, 1952); Jeanette P. Nichols, "John Sherman and the Silver Drive of 1877–1878: The Origins of a Gigantic Subsidy," *Ohio Archeological and Historical Quarterly*, 46 (April 1938), pp. 148–65.

29. *See* Noyes, *Forty Years*, p. 74.

30. Allan Nevins, *Grover Cleveland* (New York, 1933), p. 202.

31. Hepburn, *Currency*, pp. 290–98; Noyes, *Forty Years*, pp. 88–102.

32. *Report of the Director of the Mint, 1890* (Washington, 1891), p. 12; Fels, *American Business Cycles*, pp. 137–58.

33. Nevins, *Cleveland*, pp. 202–03.

34. James A. Barnes, *John G. Carlisle* (New York, 1931), p. 89; Alexander C. Flick and Gustav S. Lobrano, *Samuel Jones Tilden* (New York, 1939), p. 492; Robert McElroy, *Grover Cleveland*, 2 vols. (New York, 1923), I, 107–09; Nevins, *Grover Cleveland*, p. 204.

35. Flick and Lobrano, *Samuel Jones Tilden*, p. 492.

36. Williams, *Rutherford Birchard Hayes*, II, 368–69.

37. Muzzey, *James G. Blaine*, p. 348; Dewey, *Financial History*, p. 409–10.

38. Nevins, *Grover Cleveland*, pp. 266–79; Henry D. Russell, *International Monetary Conferences* (New York, 1898).

39. *See* Sidney Fine, *Laissez-Faire and the Welfare State* (Ann Arbor, 1956), pp. 301–02; John D. Hicks, *The Populist Revolt* (Minneapolis, 1931), pp. 54–95; Shannon, *The Farmer's Last Frontier*, pp. 148–96, 291–95.

40. *Proceedings of the First National Silver Convention* (St. Louis, 1889).

41. Noyes, *Forty Years*, pp. 139–47.

42. Sherman, *Recollections*, II, 1125, 1148, 1175–98.

43. Edward Stanwood, *History of the Presidency from 1897 to 1909* (New York, 1912), p. 490.

44. William A. Robinson, *Thomas B. Reed* (New York, 1930), pp. 242–45.

45. Fred Wellborn, "The Influence of the Silver-Republican Senators, 1889–1891," *Mississippi Valley Historical Review*, 14 (March 1928), pp. 462–80; Elmer Ellis, *Henry Moore Teller* (Caldwell, Idaho, 1941), pp. 188–97.

46. Frank W. Taussig, *The Silver Situation in the United States* (New York, 1896), pp. 10, 50; Fels, *American Business Cycles*, pp. 159–78.

47. Kemmerer, *Money*, pp. 359–64; L. A. Garnett, "The Crux of the Money Controversy: Has Gold Risen," *Forum*, 18 (January 1895), pp. 573–86, held an opposite view.

48. In simple terms, the quantity theory of money states that if the supply of money increases more rapidly than the supply of goods and services, prices will tend to rise. If, on the other hand, the volume of goods and services increases faster than the supply of money, prices will fall. The relation between money and prices may be stated as an equation, $P = MV/Q$, in which P stands for the general price level, M for the amount of money and credit, V for the velocity of circulation, and Q for the supply of goods. An increase in the velocity of

circulation tends to increase purchasing power, a decline in velocity to decrease it. However, easy money groups concentrated on the volume of money rather than on its velocity of circulation. *See* Milton Friedman, "The Quantity Theory of Money: A Restatement," in Milton Friedman (ed.), *Studies in the Quantity Theory of Money* (Chicago, 1958), pp. 3–21; Richard T. Selden, "Monetary Velocity in the United States," *Ibid.*, pp. 179–233; Alvin H. Hansen, *Monetary Theory and Fiscal Policy* (New York, 1949), pp. 43–53.

49. Sherman, *Recollections*, II, 1070.

50. *See* Thomas G. Shearman, "The Owners of the United States," *Forum*, 8 (November 1889), pp. 262–73; G. B. Spahr, *The Present Distribution of Wealth in the United States* (New York, 1896), p. 69.

51. Jeannette P. Nichols, "Bryan's Benefactor: Coin Harvey and His World," *Ohio Historical Quarterly*, 67 (October 1958), pp. 299–325; Fels, *American Business Cycles*, pp. 179–92.

52. Samuel P. Hays, *The Response to Industrialism* (Chicago, 1959); Horace S. Merrill, *Bourbon Democracy of the Middlewest, 1865–1896* (Baton Rouge, 1953).

53. Chester MacA. Destler, "The Labor-Populist Alliance in Illinois in 1894," *Mississippi Valley Historical Review*, 37 (March 1941), pp. 589–602; and "The Influence of Edward Kellogg upon American Radicalism, 1865–1896," *Journal of Political Economy*, 40 (June 1932), No. 3.

54. *See* A. L. Diggs, "The Farmers' Alliance and Some of Its Leaders," *Arena*, 5 (April 1892), pp. 590–604.

55. *Omaha World-Herald*, June 6, 1895; *Chicago Tribune*, June 2–7, 1895; Richard Hofstadter, *The Age of Reform* (New York, 1955); Henry Nash Smith, *Virgin Land* (Cambridge, 1950).

56. Claudius O. Johnson, "The Story of Silver Politics in Idaho, 1892–1902," *Pacific Northwest Quarterly*, 33 (July 1942), pp. 283–96.

57. Solon J. Buck, *The Granger Movement* (Cambridge, 1913), and *The Agrarian Crusade* (New Haven, 1920).

58. Fred E. Haynes, *James Baird Weaver* (Iowa City, 1919); Howard P. Nash, Jr., *Third Parties in American Politics* (Washington, 1959), pp. 148–63, 170–76; Allan Nevins, *Abram S. Hewitt with Some Account of Peter Cooper* (New York, 1935), pp. 282–89; Ellis B. Usher, *The Greenback Movement of 1875–1884 and Wisconsin's Part in it* (Milwaukee, 1911).

59. William A. Peffer, "The Farmer's Defensive Movement," *Forum*, 8 (December 1889), pp. 464–73, and *The Farmer's Side* (New York, 1891).

60. John D. Hicks, "The Birth of the Populist Party," *Minnesota History*, 9 (1928), pp. 219–47; Chester MacA. Destler, "Agricultural Readjustment and Agrarian Unrest in Illinois," *Agricultural History* (April 1947).

61. Paul H. Douglas, *Real Wages in the United States 1890–1926* (Boston, 1930), pp. 389–400; James C. Malin, "The Farmers' Alliance Subtreasury Plan and European Precedents," *Mississippi Valley Historical Review*, 31 (September 1944), pp. 255–60.

62. The immensity of the literature may be gleaned by noting that twenty-four articles appeared in the *Forum* and in the *North American Review* alone between 1890 and 1896 by men whose names started with A through M.

63. *Congressional Record*, 52nd Congress, 1st session, 23:13–14.

64. *Ibid.*, 23:656.

65 *Ibid.*, 23:5084–5085.

66. Noyes, *Forty Years*, pp. 176–77.

67. *Congressional Record*, 52nd Congress, 1st session, 24:1377–1382, 2121–2185, 2235–2239; *Omaha World-Herald*, February 10–12, 14, March 2, 1893; W. J. Bryan, *The First Battle* (Chicago, 1897), pp. 76–77.

68. A. T. Volwiler, "Tariff Strategy and Propaganda in the United States, 1887–1888," *American Historical Review*, 36 (October 1930), pp. 76–96; Sharkey, *Money, Class, and Party*, pp. 141–71.

69. Paolo E. Coletta, "The Morning Star of the Reformation: William Jennings Bryan's First Congressional Campaign," *Nebraska History*, 37 (June 1956), pp. 103–19, and "William Jennings Bryan's Second Congressional Campaign," *Ibid.*, 40 (September 1959), pp. 275–91; Parker, *Recollections of Grover Cleveland*, pp. 208–09.

70. Paolo Coletta, "Bryan, Cleveland and the Disrupted Democracy, 1890–1896," *Nebraska History*, 41 (March 1960), pp. 1–27.

71. Theodore Saloutous, *Farmer Movements in the South 1865–1933* (Berkeley, 1960); Sharkey, *Money, Class, and Party*, pp. 221–75.

72. In 1866 the currency in circulation was about $940 million and bank deposits about $758 million. By 1914 the figures were respectively $2 billion and $18 billion. Fite and Reese, *Economic History of the United States*, pp. 466–67.

73. J. Laurence Laughlin, *Facts About Money* (Chicago, 1895); Hepburn, *Currency*, pp. 363–64; Kemmerer, *Money*, pp. 369–71.

74. Between May and October 1893 loans in the national banks contracted by $317.8 million and individual deposits by $298.8 million.

75. Wholesale prices based on an index of 100 for 1873 fell to 65.0

in 1894, 63.3 in 1895, and 61.1 in 1896. By 1894 the price of silver had fallen to 50 cents, and the ratio of silver to gold was 32 to 1.

76. Charles Foster, "The Brussels Conference Reviewed," *North American Review*, 156 (April 1893), pp. 493–500; William E. Russell, "Political Causes of the Business Depression," *Ibid.*, 157 (December 1893), pp. 641–52.

77. *See Congressional Record*, 53rd Congress, 1st session, 25:400–411; *Omaha World-Herald*, May 5, 6, July 23–30, August 17, 23, 1893; *Omaha Bee, August* 17, 21, 23, 1893.

78. The seigniorage represented the gain which the government enjoyed when it purchased bullion at a lower price than the value stamped on the metal.

79. *Omaha World-Herald*, June 30–November 2, 1893; Jeannette P. Nichols, "The Politics and Personalities of Silver Repeal in the United States Senate," *American Historical Review*, 41 (October 1935), pp. 26–53, and "John Sherman: A Study in Inflation," *Mississippi Valley Historical Review*, 21 (September 1934), pp. 181–94; Richard P. Bland, "A Janus-Faced Statute," *North American Review*, 151 (September 1890), pp. 344–53.

80. Hepburn, *Currency*, pp. 351–53; Noyes, *Forty Years*, pp. 203–06; Fels, *American Business Cycles*, pp. 193–219.

81. *See* Grover Cleveland, *Presidential Problems* (New York, 1904); Nevins, *Grover Cleveland;* and Barnes, *John G. Carlisle.*

82. *See* Horace S. Merrill, *Bourbon Leader: Grover Cleveland and the Democratic Party* (Boston, 1957), pp. 168–207.

83. James A. Barnes, "Myths of the Bryan Campaign," *Mississippi Valley Historical Review*, 34 (December 1947), pp. 367–404; Gilbert C. Fite, "Republican Strategy and the Farm Vote in the Presidential Campaign of 1896," *American Historical Review*, 65 (July 1960), pp. 787–806.

84. *See* J. Laurence Laughlin, "Gold and Prices, 1890–1907," *Journal of Political Economy*, 17 (September 1909), pp. 257–71.